

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Howell Township</u>	County <u>Livingston</u>
Audit Date June 30, 2004	Opinion Date October 14, 2004	Date Accountant Report Submitted To State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway		City Southfield	State Michigan
Accountant Signature 		ZIP 48037	
		Date December 14, 2004	

Howell Township Livingston County, Michigan

**Financial Report
With Supplemental Information
June 30, 2004**



Howell Township Livingston County, Michigan

**Financial Report
With Supplemental Information
June 30, 2004**

Howell Township, Livingston County, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Fiduciary Funds:	
Statement of Net Assets	14
Notes to Financial Statements	15-30
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	31-32
Budgetary Comparison Schedule - Special Revenue Fund - Road Fund	33
Other Supplemental Information	
Combining Statement of Agency Fund - Fiduciary Fund	34

Independent Auditor's Report

To the Township Board
Howell Township
Livingston County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howell Township, Livingston County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Howell Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howell Township, Livingston County, Michigan as of June 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Board
Howell Township

Our audit was conducted for purpose of forming opinions on the financial statements that collectively comprise Howell Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 2, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

October 14, 2004

Howell Township, Livingston County, Michigan

Management's Discussion and Analysis

The following discussion and analysis of Howell Township, Michigan's annual financial report presents our view of the Township's financial performance during the fiscal year that ended June 30, 2004. Please read it in conjunction with the Township's financial statements, which follow beginning on page 9.

Financial Highlights

The Township's total net assets increased this fiscal year. The net assets of our governmental activities increased by \$2.1 million.

During the year, the Township had revenues that were \$2.1 million more than the \$2.4 million in expenses.

The General Fund reported a surplus this year of approximately \$177,000.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the Statement of Net Assets and Statement of Activities. These statements provide both long-term and short-term information about the Township's overall financial status.

The fund financial statements include the Balance Sheet and Statement of Revenue, Expenditures, and Changes in Net Assets/Fund Balances. These statements focus on individual parts of the Township government and report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant funds.

The governmental fund statements tell how general government services, and public works, were financed in the short term as well as what remains for future spending.

The fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements.

Howell Township, Livingston County, Michigan

Management's Discussion and Analysis (Continued)

Government-Wide Statements

The Township's government-wide statements begin on page 9 of this report. These statements report information about the Township as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the Township's net assets and how they have changed. The reporting of net assets is one way to measure the Township's financial position.

The Township's government-wide financial statements report information in the governmental activities category. Most of the Township's basic services are included here, such as public works, community development, and general services. Property taxes, state revenue sharing, and charges for services are used to finance most of these activities.

Fund Financial Statements

The Township's fund financial statements begin on page 11 of this report. These statements provide more detailed information about the Township's most significant funds. The Township uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

The Township has two fund types that use different accounting approaches:

- **Governmental Funds** - Most of the Township's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- **Fiduciary Funds** - The Township is the trustee, or fiduciary, and acts as a collection agent for certain other taxing jurisdictions such as the schools and county. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. These activities are excluded from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Howell Township, Livingston County, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the Township as a Whole

The Township's combined net assets increased from \$15.2 million to \$17.3 million. The following table illustrates the varying results of the governmental activities that combine to capture the Township's total net assets.

	Governmental Activities
	2004
Current assets	\$ 7,055,648
Noncurrent assets	<u>19,849,914</u>
Total assets	26,905,562
Current liabilities	1,678,411
Long-term liabilities	<u>7,933,316</u>
Total liabilities	9,611,727
Net assets:	
Invested in capital assets - Net of related debt	4,017,480
Restricted	3,171,389
Unrestricted	<u>10,104,966</u>
Total net assets	<u><u>\$ 17,293,835</u></u>

Net assets of the Township's governmental activities increased by 13.5 percent to \$17.3 million. This increase is due to revenues exceeding expenses.

Howell Township, Livingston County, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the Township as a Whole (Continued)

The following table displays the Township's changes in net assets. The reader should note that where prior year data is unavailable for comparisons in this fiscal year's report, there will be data in future years with appropriate discussion included.

	Governmental Activities 2004
Revenue	
Program revenue:	
Charges for services	\$ 1,512,242
General revenue:	
Property taxes	724,305
State-shared revenue	395,095
Unrestricted investment earnings	67,369
Franchise fees	23,782
Income from joint venture	1,676,829
Transfers and other revenue	13,327
Total revenue	4,412,949
Program Expenses	
General government	732,053
Public safety	103,536
Public works	1,123,093
Community and economic development	2,500
Recreation and culture	8,041
Interest on long-term debt	383,800
Total program expenses	2,353,023
Change in Net Assets	\$ 2,059,926

Howell Township, Livingston County, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

- The cost of all governmental activities this year was \$2.4 million.
- The amount that Township taxpayers paid for these activities through Township taxes was only \$724,000.
- Some of the cost (\$1.6 million) was paid by the beneficiaries of the program's activities.

The Township's Funds

As the Township completed the year, its governmental funds (see the balance sheet presented on page 11) reported a combined fund balance of \$3.5 million.

- State revenue sharing decreased by 6.0 percent or \$25,000 from the prior year.
- Howell Township's employment levels increased and the cost of health care benefits continued to increase.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The Township departments overall stayed below budget. This allowed the General Fund's fund balance to increase from \$572,000 a year ago to \$750,000 at June 30, 2004.

Capital Assets

At June 30, 2004, the Township had invested approximately \$12.8 million in a broad range of capital assets, including buildings, computer equipment, and water and sewer systems, net of accumulated depreciation. More detailed information about the Township's capital assets is presented in Note 7 to the financial statements.

Debt

At year-end the Township had \$8.8 million in long-term debt outstanding. This represents an \$800,000 decrease from the previous year. More detailed information about the Township's long-term liabilities is presented in Note 9 to the financial statements. In July 2004, \$3.3 million in General Obligation Limited Tax Bonds were sold by the Township. The purpose was to fund an expansion to the MHOG water system. Revenues from the operation of the system will pay principal and interest on the bonds after payment of operation and maintenance expenses of the system.

Howell Township, Livingston County, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget and Rates

The Township's budget for the 2005 fiscal year is balanced with no property tax rate increase. Estimated property tax revenues are expected to increase by approximately \$38,000. During the 2004 fiscal year, the Township experienced reductions in state revenue sharing. Given current economic conditions, the adopted budget forecasts reductions in this revenue source for the 2005 fiscal year.

Total expenditures in the general fund for the 2005 fiscal year are estimated to be \$1,001,676. The "Manager/Zoning Administration", "Assessing", and "General Unallocated" departments represent the largest components of overall budget expenditures with a total estimated combined costs of \$295,465.

Contacting the Township's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Finance Director's office at Howell Township, 3525 Byron Road, Howell, MI 48843.

Howell Township, Livingston County, Michigan

Statement of Net Assets June 30, 2004

	Primary Government Governmental Activities
Assets	
Cash and investments (Note 4)	\$ 3,893,982
Receivables:	
State sources	66,203
Interest	1,551
Special assessments	3,086,044
Other	7,868
Investment in joint ventures (Note 11)	6,631,472
Reserves with County (Note 5)	414,985
Capital assets - Net (Note 7)	
Assets not subject to depreciation	25,392
Assets subject to depreciation	<u>12,778,065</u>
Total assets	26,905,562
Liabilities	
Accounts payable	402,089
Accrued and other liabilities	416,191
Noncurrent liabilities (Note 9):	
Due within one year	860,131
Due in more than one year	<u>7,933,316</u>
Total liabilities	<u>9,611,727</u>
Net Assets	
Invested in capital assets - Net of related debt	4,017,480
Restricted:	
Road	865,992
Water and sewer construction	414,985
Debt service	1,854,494
Capital projects	35,918
Unrestricted	<u>10,104,966</u>
Total net assets	<u><u>\$ 17,293,835</u></u>

Howell Township, Livingston County, Michigan

Statement of Activities Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Charges for	Operating	Capital Grants	Primary	
Expenses	Services	Grants and	and	Government	
		Contributions	Contributions	Governmental	
				Activities	
Functions/Programs					
Primary government:					
Governmental activities:					
General government	\$ 732,053	\$ 96,496	\$ -	\$ -	\$ (635,557)
Public safety	103,536	16,296	-	-	(87,240)
Public works	1,123,093	1,399,450	-	-	276,357
Community and economic development	2,500	-	-	-	(2,500)
Recreation and culture	8,041	-	-	-	(8,041)
Interest on long-term debt	383,800	-	-	-	(383,800)
Total governmental activities	2,353,023	1,512,242	-	-	(840,781)
Total primary government	<u>\$ 2,353,023</u>	<u>\$ 1,512,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(840,781)</u>
General revenues:					
Property taxes					724,305
State-shared revenues					395,095
Unrestricted investment earnings					67,369
Franchise fees					23,782
Income from joint ventures (Note 11)					1,676,829
Miscellaneous					13,327
Total general revenues, special item, and transfers					2,900,707
Change in Net Assets					2,059,926
Net Assets - Beginning of year (Note 2)					15,233,909
Net Assets - End of year					\$ 17,293,835

Howell Township, Livingston County, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Governmental Funds					Nonmajor Governmental Fund	Total Governmental Funds
	General Fund	Road Fund	Water Fund	Sewer Fund	Capital Projects Fund	Parks and Recreation Fund	
Assets							
Cash and investments (Note 4)	\$ 761,884	\$ 888,518	\$ 1,458,283	\$ 406,564	\$ 335,918	\$ 42,815	\$ 3,893,982
Receivables:							
State sources	66,203	-	-	-	-	-	66,203
Interest receivable	-	-	1,551	-	-	-	1,551
Special assessments	-	-	1,689,426	1,141,018	255,600	-	3,086,044
Other	-	-	-	7,868	-	-	7,868
Due from other funds (Note 8)	11,904	-	-	-	-	-	11,904
Total assets	\$ 839,991	\$ 888,518	\$ 3,149,260	\$ 1,555,450	\$ 591,518	\$ 42,815	\$ 7,067,552
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 79,563	\$ 22,526	\$ -	\$ -	\$ 300,000	\$ -	\$ 402,089
Accrued and other liabilities	10,673	-	-	-	-	-	10,673
Due to other funds (Note 8)	-	-	-	11,904	-	-	11,904
Deferred revenue (Note 6)	-	-	1,689,426	1,148,886	255,600	-	3,093,912
Total liabilities	90,236	22,526	1,689,426	1,160,790	555,600	-	3,518,578
Fund Balances							
Reserved for:							
Special revenue	-	865,992	-	-	-	-	865,992
Unreserved:							
Designated for debt service	-	-	1,459,834	394,660	-	-	1,854,494
Designated for capital projects	-	-	-	-	35,918	-	35,918
Undesignated	749,755	-	-	-	-	42,815	792,570
Total fund balances	749,755	865,992	1,459,834	394,660	35,918	42,815	3,548,974
Total liabilities and fund balances	\$ 839,991	\$ 888,518	\$ 3,149,260	\$ 1,555,450	\$ 591,518	\$ 42,815	\$ 7,067,552

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	12,803,457
Joint venture assets reported in governmental activities are not financial resources and are not reported in the funds	6,631,472
Reserves with County assets reported in governmental activities are not financial resources and are not reported in the funds	414,985
Special assessment and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	3,093,912
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(405,518)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(8,793,447)
Net assets of governmental activities	\$ 17,293,835

Howell Township, Livingston County, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Governmental Funds					Nonmajor Governmental Fund	Total Governmental Funds
	General Fund	Road Fund	Water Fund	Sewer Fund	Capital Projects Fund	Parks and Recreation Fund	
Revenue							
Property taxes	\$ 343,561	\$ 268,462	\$ -	\$ -	\$ -	\$ -	\$ 612,023
Licenses and permits	122,265	-	-	-	-	-	122,265
State-shared revenues	395,095	-	-	-	-	-	395,095
Charges for services	14,308	-	92,508	748,089	350,154	-	1,205,059
Special assessments	-	-	344,959	155,196	58,464	-	558,619
Interest and penalties	126,465	11,156	29,083	8,918	3,669	360	179,651
Other	13,328	-	-	-	-	-	13,328
Total revenue	1,015,022	279,618	466,550	912,203	412,287	360	3,086,040
Expenditures							
Current:							
General government	681,773	-	-	-	-	-	681,773
Public safety	103,536	-	-	-	-	-	103,536
Public works	33,045	181,868	509	12,923	600,000	-	828,345
Community and economic development	2,500	-	-	-	-	-	2,500
Recreation and culture	75	-	-	-	-	7,966	8,041
Capital outlay	15,387	-	-	-	1,430	-	16,817
Debt service	-	-	358,185	907,022	-	-	1,265,207
Total expenditures	836,316	181,868	358,694	919,945	601,430	7,966	2,906,219
Excess of Revenue Over (Under) Expenditures	178,706	97,750	107,856	(7,742)	(189,143)	(7,606)	179,821
Other Financing Sources (Uses)							
Transfers in (Note 8)	-	-	-	-	1,302	-	1,302
Transfers out (Note 8)	(1,302)	-	-	-	-	-	(1,302)
Total other financing sources (uses)	(1,302)	-	-	-	1,302	-	-
Net Change in Fund Balances	177,404	97,750	107,856	(7,742)	(187,841)	(7,606)	179,821
Fund Balances - Beginning of year - as adjusted (Note 2)	572,351	768,242	1,351,978	402,402	223,759	50,421	3,369,153
Fund Balances - End of year	\$ 749,755	\$ 865,992	\$ 1,459,834	\$ 394,660	\$ 35,918	\$ 42,815	\$ 3,548,974

Howell Township, Livingston County, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 179,821
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(326,736)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(349,920)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	839,959
Income from joint venture	1,676,829
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(1,475)
Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid	41,448
Change in Net Assets of Governmental Activities	<u>\$ 2,059,926</u>

Howell Township, Livingston County, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	<u>Agency Funds</u>
Assets - Cash and investments (Note 4)	<u>\$ 124,816</u>
Liabilities	
Accounts and deposits payable	\$ 56,246
Due to other governmental units	<u>68,570</u>
 Total liabilities	 <u>\$ 124,816</u>

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Howell Township, Livingston County, Michigan (the Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Howell Township, Livingston County, Michigan:

Reporting Entity

Howell Township, Livingston County, Michigan is governed by an elected seven-member board. As required by accounting principles generally accepted in the United States of America, these financial statements present Howell Township. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associates with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the Township.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Road Fund - The Road Fund is used to account for road improvements and maintenance.

Water Fund - The Water Fund is set up as a debt retirement fund to pay off bonds sold for the construction of the water system and assessed to property owners.

Sewer Fund - The Sewer Fund is set up as a debt retirement fund to pay off bonds sold for construction of the sewer system and assessed to property owners.

Capital Projects Fund - The Capital Projects Fund is used to account for future expenditures for capital projects (i.e. roof replacement, parking lot repavings, etc.)

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Property Tax Revenue

Property taxes are assessed as of December 31. The related property taxes are billed on December 1, of the following year and become a lien at that time. These taxes are due on February 14, with the final collection date of February 28, before they are added to the county tax rolls.

The 2003 taxable valuation of the Township totaled \$279,924,799, on which ad valorem tax levies consisted of .9044 mills for the Township's operating purposes and .9616 mills for special voted road millages.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water and sewer distribution systems	50 years
Buildings and building improvements	30 years
Furniture and equipment	5 to 25 years

Compensated Absences (Vacation) - It is the Township's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Accounting and Reporting Changes

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Howell Township has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets that would previously have been reported in the General Fixed Assets Account Group
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$5.6 million to reflect the historical cost of the Township's capital assets at that date
- The governmental activities column includes bonds and other long-term obligations totaling approximately \$8.8 million, previously reported in the General Long-term Debt Account Group

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Accounting and Reporting Changes (Continued)

Determination of Beginning Net Assets - Prior to the implementation of GASB Statement No. 34, the activities of the Township were only reported using the modified accrual basis of accounting for its governmental activities. The Township now uses the full accrual basis of accounting for these governmental activities in the government-wide financial statements. In connection with the implementation of GASB 34, the following adjustments have been made to reflect the cumulative effect of this accounting change:

Fund Balance - Beginning of year in the general, special revenue, debt service, and capital projects funds as adjusted for GASB Interpretation 6	\$ 3,369,153
Capitalization of capital assets, net of accumulated depreciation	13,007,912
Recognition of joint venture assets	4,954,643
Recognition of long-term liabilities	(9,625,936)
Recognition of expenses for compensated absences	(5,995)
Recognition of accrued interest payable	(446,966)
Recognition of reserves with County	537,266
Recognition of revenue previously earned	<u>3,443,832</u>
Net Assets - Beginning of year, as adjusted	<u>\$ 15,233,909</u>
 Fund Balance - Beginning of the year, as previously reported in the General Fund	 \$ 566,396
Adjustment for compensated absences	<u>5,955</u>
Fund Balance - Beginning of year, as restated	<u><u>\$ 572,351</u></u>

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Township Supervisor and adopted by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and the Road Special Revenue Fund budgets as adopted by the Township Board is included in the general purpose financial statements.

Note 4 - Deposits and Investments

The Township is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, and mutual funds and investment pools that are composed of authorized investment vehicles. In addition, the Township imposes other restrictions on allowable investments.

The Howell Township, Livingston County, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 3,893,982	\$ 124,816	\$ 4,018,798

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Township is as follows:

	<u>Primary Government</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 4,018,698
Petty cash or cash on hand	<u>100</u>
Total	<u>\$ 4,018,798</u>

Deposits

The bank balance of the Township's deposits is \$4,119,969, of which \$500,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluated each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Reserves With County

In addition to the balance accumulated in the Township's Sewer Debt Service Fund, there are also sewer funds maintained by the County for drain operations and certain drain projects. These County-maintained funds have surpluses that are available to the Township to offset future costs of sewer projects.

The County also maintains Construction Funds for Township water system-related projects. The Township's share of the amount in these funds will be used to pay for related future construction expenditures.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Reserves With County (Continued)

The Township's portions of each of the County-maintained funds at June 30, 2004, are as follows:

Sewer Funds:

Howell Township Maintenance and Operation	\$	246,082
Howell Township Sanitary Sewer		7,978
Howell Township Sanitary Sewer Improvements		135,513
Howell Township Sanitary Sewer 2001 Extension		3,945

Construction Funds:

Howell Joint Township Water System		3,204
Treatment Plant Series "D"		6,137
Treatment Plant Series "E"		12,126

Total reserves	\$	<u>414,985</u>
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Note 6 - Receivables

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ <u>3,093,912</u>	\$ <u>-</u>

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

Governmental Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 25,392	\$ -	\$ -	\$ 25,392
Capital assets being depreciated:				
Buildings and improvements	804,110	-	-	804,110
Furniture and equipment	167,400	9,364	1,831	174,933
Sewer system	11,946,816	75,523	-	12,022,339
Water system	343,427	-	-	343,427
Subtotal	13,261,753	84,887	1,831	13,344,809
Accumulated depreciation:				
Buildings and improvements	53,607	26,804	-	80,411
Furniture and equipment	37,954	15,978	1,831	52,101
Sewer system	184,238	239,691	-	423,929
Water system	3,434	6,869	-	10,303
Subtotal	279,233	289,342	1,831	566,744
Net capital assets being depreciated	12,982,520	(204,455)	-	12,778,065
Net capital assets	<u>\$ 13,007,912</u>	<u>\$ (204,455)</u>	<u>\$ -</u>	<u>\$ 12,803,457</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 42,782
Public works	<u>246,560</u>
Total governmental activities	<u>\$ 289,342</u>

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/From Other Funds		
General Fund	Sewer Fund	\$ 11,904

Interfund balances represent routine and temporary cash flow assistance and timing differences between the receipt of services and the settlement of interfund balances.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Capital Projects Fund	\$ 1,302

The transfers provide funding for capital acquisitions.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Long-Term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements are also general obligations of the government. The Township has pledged its full faith and credit as collateral for the County contract obligations.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Livingston County Joint Water System - Series B						
Amounts of issue - \$3,375,000	4.375%-					
Maturing through 2015	5.350%	\$ 175,000	\$ 2,100,000	\$ (175,000)	\$ 1,925,000	\$ 175,000
Livingston County Joint Water System - Series D						
Amounts of issue - \$625,000	5.125%-	\$ 19,276 -				
Maturing through 2016	8.000%	40,109	449,076	(18,518)	430,558	18,518
Livingston County Joint Water System - Series E						
Amount of issue - \$743,750	5.200% -	\$ 22,222 -				
Maturing through 2016	5.375%	53,472	532,641	(22,222)	510,419	22,222
Howell Township Sanitary Sewer Drain						
Drainage District Drain Improvements						
Amount of issue - \$7,210,000		\$ 520,000 -				
Maturing through 2011	4.960%	790,000	5,290,000	(545,000)	4,745,000	575,000
Howell Township Sanitary Sewer Drain						
2001 Extension Drainage District						
Amount of issue - \$1,320,000	3.875% -	\$ 60,000 -				
Maturing through 2021	4.900%	70,000	1,240,000	(65,000)	1,175,000	65,000
Installment purchase agreement:						
Voting machines						
Amount of issue - \$16,132	6.00%	\$ 1,913 -				
Maturing through 2004		2,123	14,219	(14,219)	-	-
Other long-term obligations:						
Compensated absences			5,995	1,475	7,470	4,391
Total governmental activities			\$ 9,631,931	\$ (838,484)	\$ 8,793,447	\$ 860,131

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Long-Term Debt (Continued)

Annual debt service requirements (excluding compensated absences) to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 855,740	\$ 405,518	\$ 1,261,258
2006	885,741	364,351	1,250,092
2007	954,074	322,227	1,276,301
2008	1,000,324	276,666	1,276,990
2009	1,035,324	228,386	1,263,710
2010-2014	3,204,120	519,470	3,723,590
2015-2019	710,654	106,589	817,243
2020-2021	140,000	10,290	150,290
Total	<u>\$ 8,785,977</u>	<u>\$ 2,233,497</u>	<u>\$ 11,019,474</u>

Note 10 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all of the above items. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 - Joint Ventures

Marion, Howell, Oceola, and Genoa Sewer and Water Authority

The Township is a member of the Marion, Howell, Oceola, and Genoa Water Authority (the Authority, also referred to as "MHOG"). The Authority is incorporated by the townships of Marion, Howell, Oceola, and Genoa. The Authority is responsible for the operations of the joint water systems.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 11 - Joint Ventures (Continued)

Howell Township's equity in this joint venture, as of June 30, 2004, is \$6,269,666, which is recorded on the government-wide Statement of Net Assets.

The Authority is anticipating a substantial expansion of its capacity at a cost which is expected to be approximately \$10,000,000. At this time, a determination of the funding sources for this expansion has not been finalized. Potential sources of funding for the expansion include bonds issued by the Townships which could be repaid from connection fees, operating rates, or contributions from the member communities, or a combination thereof. Alternatively, each member community may be required to contribute its share of the expansion, which may require the members to issue their own bonds or utilize other cash reserves.

Other than the potential contribution for the expansion discussed above, the Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

Complete financial statements for the Marion, Howell, Oceola, and Genoa Sewer and Water Authority can be obtained from the administrative offices at the Township of Oceola, Livingston County, Michigan.

Howell Area Fire Authority

The Township is a member of the Howell Area Fire Authority, which was jointly incorporated by the City of Howell, Cohoctah Township, Marion Township, Oceola Township, and Howell Township (The Municipalities) for the purpose of providing fire protection and other emergency health and safety services to the Municipalities. The Township appoints a member to the joint venture's governing board which then approves the annual budget. During the current year, the funding for the Authority changed from contributions from the Municipalities to a dedicated taxpayer approved millage. The Township's equity interest in the joint venture at June 30, 2004 is \$361,806, which is recorded within the governmental activities column in the statement of net assets. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements of the Authority can be obtained from the administrative offices at the Township of Howell, Michigan.

Howell Township, Livingston County, Michigan

Notes to Financial Statements June 30, 2004

Note 12 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its elected officials, appointed deputies of elected officials, and Township employees who are regularly employed for more than 24 hours per week through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus or minus investment earnings or losses. Employees are eligible to participate upon hire. As established by the Township Board, the Township contributes 15 percent of employees' gross earnings. Additionally, participants may contribute up to 10 percent of gross earnings. In accordance with these requirements, the Township contributed approximately \$49,000 during the year. No amounts were contributed by the participants.

Note 13 - Subsequent Events

Subsequent to June 30, 2004, the Township has committed to borrow \$3,300,000 in additional General Obligation Limited Tax Bonds.

Required Supplemental Information

Howell Township, Livingston County, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 256,164	\$ 349,307	\$ 343,561	\$ (5,746)
State sources	390,000	391,000	395,095	4,095
Interest income	8,000	8,000	14,183	6,183
Cable TV franchise fee	19,000	19,000	23,782	4,782
Nonbusiness licenses, permits, and fees	35,000	30,500	31,181	681
Collection fees	10,000	10,000	13,030	3,030
Zoning fees	20,000	20,000	27,176	7,176
Zoning Appeal Board	5,000	5,000	5,400	400
Reimbursed fire runs	20,000	10,000	16,296	6,296
Land division fees	4,500	4,500	5,400	900
Charges for services	10,000	14,500	14,308	(192)
Other	86,200	6,200	125,610	119,410
Total revenue	863,864	868,007	1,015,022	147,015

Howell Township, Livingston County, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenses				
Township Board	\$ 20,330	\$ 20,330	\$ 20,116	\$ 214
Supervisor	26,600	26,600	26,971	(371)
Clerk	51,063	51,063	47,852	3,211
Manager	109,350	109,350	108,588	762
Election expenses	15,970	19,315	19,206	109
Treasurer	52,263	42,263	43,001	(739)
Finance Director	-	16,450	14,296	2,154
Professional Services:				
Legal	65,000	72,500	76,105	(3,605)
Other	20,000	24,050	24,050	-
Tax roll preparation	5,300	5,850	5,846	4
Township Hall expenses	20,450	20,450	14,917	5,533
Township general expenditures	73,200	79,200	80,075	(875)
Cemetery and memorials	6,775	6,775	5,483	1,292
Planning Commission	14,750	14,750	10,080	4,670
Planning Consultant	14,500	16,200	15,178	1,022
Board of Appeals	4,250	2,250	1,972	278
Board of Review	2,000	1,000	855	145
Street lighting	4,000	4,500	3,777	723
Fire department	193,598	103,630	103,536	94
Drains	41,000	25,720	24,858	862
Payroll taxes	26,000	26,200	26,955	(755)
Assessor	83,800	70,735	72,165	(1,430)
Insurance	13,000	14,000	13,073	927
Engineering	17,000	17,000	4,410	12,590
Economic development	2,500	2,500	2,500	-
Recreation and cultural	3,175	3,175	3,010	165
Employees' life insurance	3,000	3,000	2,949	51
Retirement	49,700	49,700	48,610	1,090
Meetings	800	800	495	305
Capital outlay	10,000	17,350	15,387	1,963
Operating transfers	-	1,302	1,302	-
Total expenses	949,374	868,007	837,618	30,389
Net Revenue Over (Under) Expenses	(85,510)	-	177,404	177,404
Fund Balance - Beginning of year	572,351	572,351	572,351	-
Fund Balance - End of year	\$ 486,841	\$ 572,351	\$ 749,755	\$ 177,404

Howell Township, Livingston County, Michigan

Required Supplemental Information Budgetary Comparison Schedule Special Revenue Fund - Road Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 269,175	\$ 267,175	\$ 268,462	\$ 1,287
Interest income	<u>10,000</u>	<u>10,000</u>	<u>11,156</u>	<u>1,156</u>
Total revenue	279,175	277,175	279,618	2,443
Expenses				
Road maintenance	199,175	197,175	114,867	82,308
Road - Chloride	<u>80,000</u>	<u>80,000</u>	<u>67,001</u>	<u>12,999</u>
Total expenses	<u>279,175</u>	<u>277,175</u>	<u>181,868</u>	<u>95,307</u>
Net Revenue Over Expenses	-	-	97,750	97,750
Fund Balance - Beginning of year	<u>768,242</u>	<u>768,242</u>	<u>768,242</u>	-
Fund Balance - End of year	<u><u>\$ 768,242</u></u>	<u><u>\$ 768,242</u></u>	<u><u>\$ 865,992</u></u>	<u><u>\$ 97,750</u></u>

Other Supplemental Information

Howell Township, Livingston County, Michigan

Other Supplemental Information Combining Statement of Agency Fund Fiduciary Funds Year Ended June 30, 2004

	Agency Funds			
	Trust & Agency Fund	Sewer Agency Fund	Current Tax Fund	Totals
Assets - Cash and investments (Note 4)	\$ 59,277	\$ 63,492	\$ 2,047	\$ 124,816
Liabilities				
Accounts and deposits payable	\$ 56,246	\$ -	\$ -	\$ 56,246
Due to other governmental units	3,031	63,492	2,047	68,570
				-
Total liabilities	\$ 59,277	\$ 63,492	\$ 2,047	\$ 124,816

Howell Township

Report to the Township Board

June 30, 2004

plante

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To the Township Board
Howell Township

We recently completed our audit of the financial statements of Howell Township for the year ended June 30, 2004. During the performance of our audit, we noted items related to the internal control systems and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below:

TITLE	PAGE
Recommendations	
Internal Controls	2
Accounts Payable	2
Accrued Vacation	3
Other Comments and Legislative Issues	
SAS 99	4
Municipal Finance Act Revisions - Reminder	4
Revenue Sharing	5

We appreciate the opportunity to be of service to Howell Township. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the Township. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

Plante & Moran, PLLC

October 14, 2004

Recommendations

Howell Township Recommendations June 30, 2004

Internal Controls

Due to the inherent risk associated with cash, we recommend the Township modify and implement controls related to the handling of cash receipts and the cash accounts.

- We noted during our bank reconciliation testing that the Finance Director is preparing the bank reconciliations but there is not a formal review process in place. We encourage the Township to put a process in place where the Finance Director prepares the reconciliations, signs and dates the reconciliation, and then someone else reviews the reconciliation. The reviewer should also sign and date the reconciliation. This review process should include tying outstanding checks to the listing, comparing the bank balance to original bank statements, agreeing the book balance to the general ledger, and footing the reconciliation. Additionally, the reconciliation and outstanding check listing should be scanned for any items which look unusual. This would provide stronger internal controls over the bank reconciliation process.
- During journal entry testing, it was noted that there is no formal approval process in place for manual journal entries. We recommend that two signatures be required in order to initiate and approve a journal entry. This would help to strengthen the internal controls surrounding journal entries. In addition, per review of journal entry detail, we noted that not all the journal entries had supporting documentation readily available or actually attached to the forms, and some of the documentation was just the journal entry request form. We encourage the Township to attach supporting documentation to the hard copies of the journal entries, rather than just the journal entry request forms.

Accounts Payable

With the conversion to the new accounting system during the year, the Township should utilize the system's capabilities relating to tracking accounts payable. Using the system, the Township should track accounts payable by fund, listed by vendor, in order to have an updated accounts payable listing at all times during the year. In addition, the accounts payable balance on the general ledger should be reconciled quarterly to the detailed subsidiary ledger.

While testing accounts payable for the current year, we noted several invoices that were incorrectly excluded from the accounts payable balance at year-end. We suggest journal entries to correctly include these invoices in the accounts payable balance at June 30, 2004. The Township should put procedures in place to effectively capture all accounts payable throughout the year and at year-end. These procedures should include notation on all invoices received near or within one month of year-end telling which period the invoice should relate to.

Howell Township Recommendations June 30, 2004

Accrued Vacation

We noted during our testing of accrued vacation that the system in place is handwritten on individual sheets of paper and is not very easy to follow. In addition, the vacation policy is kept on a calendar year basis, whereas the Township is on a fiscal year-end, so the accrual can be a confusing process when trying to determine the total hours accrued as of June 30, 2004. We recommend that the Township utilize the new accounting computer system in place to track accrued vacation on a weekly basis. This would help to more easily identify the hours available to each employee and help enforce the vacation policy. In addition, the Township should consider changing the vacation policy to be in line with the fiscal year, so as to simplify the accrual process.

Other Comments and Legislative Issues

Howell Township
Other Comments and Legislative Issues
June 30, 2004

SAS 99

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. The Board should be pleased to note that the extra inquiries and testing that was required did not reveal any material problem not already addressed by the Township.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing (Municipal Qualifying Statement) once a year with the Michigan Department of Treasury. This filing can be done online with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the Township's year-end which means that Howell Township's filing is due December 31, 2004, and is good for one year thereafter.

Howell Township

Other Comments and Legislative Issues

June 30, 2004

Revenue Sharing

Municipalities in Michigan have and will continue to feel the effects of the slow down in the state's economy. State shared revenue accounted for approximately 39 percent of the Township's total General Fund revenue for the fiscal year ended June 30, 2004. Because of slower than anticipated growth in the state's sales tax collections (the sole source of revenue sharing payments to local units of government) and the state's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the state's budget, revenue sharing payments for the last several years have been lower than anticipated.

The following depicts the Township's actual and estimated revenue sharing payments over a five year period - from the state's fiscal year ending September 30, 2001 through the fiscal year ending September 30, 2005.

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005
Constitutional	\$ 368,523	\$ 372,277	\$ 378,579	\$ 374,467	\$ 390,442
Statutory	<u>79,046</u>	<u>71,196</u>	<u>54,146</u>	<u>14,446</u>	<u>-</u>
Total payments	<u>\$ 447,569</u>	<u>\$ 443,473</u>	<u>\$ 432,725</u>	<u>\$ 388,913</u>	<u>\$ 390,442</u>
Dollar change		\$ (4,096)	\$ (10,748)	\$ (43,812)	\$ 1,529
Percentage change		-0.92%	-2.42%	-10.12%	0.39%

While Howell Township's constitutional revenue sharing payments have increased slightly in most years, the statutory piece of revenue sharing has dropped almost \$80,000 since 2001. For the state's fiscal year 04/05, the Governor has proposed to hold the line on revenue sharing - meaning that the FY 04/05 levels will approximately equal the FY 03/04 levels - but only for cities, villages, and townships. As you can see, the proposed revenue sharing for Howell Township for the state's fiscal year ending September 30, 2005 is \$390,442, which is almost equal to the actual amount for the state's fiscal year ending September 30, 2004.

Although sales tax revenue would support an increase to state shared revenue payments, the state's budget situation remains troublesome at best. It is generally acknowledged that the state's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.